SB 244

Department of Legislative Services

Maryland General Assembly
2000 Session

FISCAL NOTE
Revised

Senate Bill 244 (Senator Ruben, *et al.*)
Budget and Taxation

Commuter Benefits Act of 2000

This bill allows a credit against the State income tax for employers who provide employees a "cash in lieu of parking program" or a "guaranteed ride home." The bill also allows specified tax-exempt organizations to apply tax credits allowed for employer-provided commuter benefits as a credit against the payment of employee withholding taxes required to be withheld from the wages of employees and paid to the Comptroller.

The bill takes effect July 1, 2000, and applies to all taxable years beginning after December 31, 1999.

Fiscal Summary

State Effect: The extent of any general fund revenue loss depends on a number of unknown factors which include the number of participating employers, the number of credits claimed, and transportation costs. Transportation Trust Fund (TTF) revenues could decrease from those credits taken against the corporate income tax. The reporting requirement could be handled with existing budgeted resources.

Local Effect: Potential minimal revenue loss. To the extent that credits are taken by corporations, local revenues would decline. A portion of the corporate income tax is distributed to the TTF to which a distribution to local governments is made.

Small Business Effect: Potential meaningful. To the extent that the bill increases demand for guaranteed rides home, businesses such as taxi cab companies could benefit due to increased fare revenues. In addition, some small nonprofit organizations will benefit from being permitted to take the credit against withholding taxes.

Analysis

Bill Summary: The bill also requires the Maryland Department of Transportation and the Maryland Department of the Environment, in conjunction with the Comptroller's Office, to assess the success of the employer provided commuter benefits program in helping to achieve compliance with statewide air quality standards, reduce traffic congestion, and increase transit ridership. The Comptroller's Office is required to assess the impact of the tax credit program on the general fund and provide an estimate of the number of employers participating in the program.

A consolidated report of all findings is to be submitted to the General Assembly on or before December 1, 2005. The report shall include all information of value to the General Assembly in determining the effectiveness of the program and whether it is appropriate for the general fund to be reimbursed by the TTF for the costs of the program. The information shall include baseline data relative to: (1) employers providing commuter benefits of the type for which a tax credit may be provided; (2) vehicle miles traveled; (3) mass transit ridership; and (4) ozone and carbon monoxide levels in attainment and nonattainment areas.

Current Law: A tax credit exists for employers that provide certain commuting benefits to their employees. The credit is equal to 50% of the cost of ride-share commuting expenses provided by the employer, subject to a maximum credit of $30 per employee per month. Eligible employer-provided commuter expenses are those that cover multiple- seating vehicle transportation costs and mass-transit transportation costs.

Background: The federal Energy Policy Act of 1992 authorized a deduction of $60 per employee per month for employer paid transit and ridesharing expenses. For the employee, this subsidy was not taxable. Prior to 1992, the only employer deduction was for employee parking. The federal Transportation Equity Act for the 21st Century of 1998 (TEA-21) further expanded the 1992 Act by permitting the employee to use pre-tax income for transit and ridesharing expenses. The limit is currently $65 per month for such expenses and up to $175 per month for parking.

The Montgomery County Fair Share Program ($400,000 budgeted for fiscal 2000, plus an additional $175,000 for a targeted effort in Bethesda) allows a dollar-for-dollar match of up to $65 per employee per month for transit and ridesharing expenses. Approximately 43 companies (2,300 employees) are currently participating, half of which are nonprofit organizations. A similar program existed in Montgomery County from 1987 to 1991.

In November 1999, The Johns Hopkins University instituted a Pre-Tax Commuting to Work Program. The program covers qualified parking and transit expenses incurred by faculty and staff in commuting to and from work. The maximum amount of parking expenses eligible for pre-tax treatment is $175 per month. The maximum amount of transportation expenses eligible for pre-tax treatment is $65 per month.

Washington State and New Jersey have implemented programs similar to the program that exists under current State law. Connecticut has also authorized a similar program, although regulations have yet to be promulgated.

State Fiscal Effect: The Metropolitan Washington Council of Governments (MWCG) is a nonprofit organization that operates a guaranteed ride home program. It is funded by the Maryland and Virginia Departments of Transportation and the District of Columbia Department of Public Transportation. The MWCG's program provides up to four free rides per year to employees whose employers are enrolled in the program and who work in the Washington, DC metropolitan area. The program is free to employers. The program provides a ride home only in the event of an unexpected personal emergency or for unscheduled overtime. Most employees do not require more than four rides home per year. As a result, most employers do not add additional rides to their programs, since the first four rides are free. Because the program is free to employers, it is assumed that few if any credits would be claimed by Maryland employers in the Washington metropolitan area because it would cost more to pay for rides home and then claim a credit for them.

The program has been in effect for three years and provides an average of 100-150 rides per month at an average cost of $40 per ride. Rides are provided either by taxi (80%) or by rental car (20%).

The Baltimore Metropolitan Council does not have a guaranteed ride home program.

Assuming that 150 rides were given per month in the Baltimore metropolitan area and an additional 300 were given in other parts of the State, the cost would be approximately $216,000 per year (at $40 per ride). The credit allowed is 50% of the cost of providing commuter benefits with a maximum credit of $30 per individual employee per month. Based on the example above, the maximum credit claimed would be $20 per employee ride home with an annual cost of $108,000.

The bill would also allow employers to take the credit for the cost of offering a cash in lieu of parking program. A cash in lieu of parking program is defined as an employer funded program under which an employer offers to provide a cash allowance to an employee in an amount equal to the parking subsidy that the employer would otherwise pay or incur to provide the employee a parking space. However, at this time, the number of employers who may offer a cash in lieu of parking program cannot be reliably estimated.

Although the tax credit applies to tax year 2000, it is assumed that, for most taxpayers, withholdings and estimated taxes will not be adjusted to reflect the tax credit until tax year 2001 because of the mid-year effective date. Credits taken on personal income tax returns will reduce general fund revenues in the amount of the credits. Because 75% of all corporate income tax revenues are distributed to the general fund and 25% are distributed to the TTF, credits taken on corporate income tax returns will reduce general fund revenues by 75% of the amount of the credits taken, and TTF revenues will be reduced by 25% of the credits taken. In addition, 30% of the 25% of revenue distributed to the TTF is distributed to local governments. At this time, the number of credits expected to be claimed on personal or corporate income tax returns cannot be reliably estimated.

To the extent that nonprofit organizations claim the credit against withholding taxes paid on the personal income tax return, general fund revenues would decrease. The amount of any decrease cannot be reliably estimated.

Local Fiscal Effect: Local government revenues would decline as a result of corporate taxpayers claiming the credits proposed in the bill. As mentioned above, 75% of corporate tax revenues are distributed to the general fund, and 25% are distributed to the TTF. Of the 25% distributed to the TTF, approximately 30% is distributed to local jurisdictions.

Additional Information

Prior Introductions: None.

Cross File: HB 310 (Delegate Carlson, *et al.*) - Ways and Means.

Information Source(s): Comptroller of the Treasury (Bureau of Revenue Estimates), Maryland Department of the Environment, Maryland Insurance Administration, Maryland Department of Transportation, Department of Legislative Services

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